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GENERAL ACCOUNTING OFFICE WASHINGTON DC INTERNATIONAL DIV F/6 5/4
AGREEMENTS ON INTER-NATO DEFENSE TRADE.(U)

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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INTERNATIONAL DIVISION

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The Honorable Caspar W. Weinberger
The Secretary of Defense

Dear Mr. Secretary:

Subject: Agreements on Inter-NATO Defense Trade (ID-82-30)

We reviewed the general Memorandums of Understanding between the Department of Defense and 11 allies of the North Atlantic Treaty Organization (NATO) to determine whether these agreements had provided increased reciprocal opportunities for firms of one country to compete for defense procurements by another country. We were unable to do so because the Department of Defense has not established an adequate data system to provide a base for determining the impact of the agreements on defense trade.

The broad policy of Rationalization, Standardization, and Interoperability (R/S/I) became the cornerstone of U.S. policies within NATO in the 1970s. To address NATO cooperative armaments needs, the Department of Defense encouraged common production of weapons and entered into Memorandums of Understanding to reduce barriers to inter-NATO defense trade. The Department believes these programs will improve NATO defense markets and maximize competition, thereby improving overall economic efficiency and combat effectiveness.

The Department of Defense has made extensive use of Memorandums of Understanding which can be divided into two types--general and specific. The general Memorandums established broad principles for more open defense procurement opportunities through eliminating restrictions on a reciprocal basis. The specific Memorandums are used to encourage collaboration on individual weapons systems. This letter focuses on the general Memorandums.

The Office of International Acquisition has negotiated general Memorandums of Understanding with 11 NATO allies--Canada, Germany, Italy, the United Kingdom, Norway, the Netherlands, Portugal, Belgium, Denmark, France, and Turkey--to promote:

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- "(1) Greater cooperation in research, development, acquisition and production;
- "(2) The most rational use of respective industrial, economic, and technological resources;
- "(3) The greatest attainable military capability at the lowest possible cost;
- "(4) Greater standardization and interoperability of their weapons systems."

Under the Memorandums, participating governments were to open their defense procurements by eliminating restrictions on competition from industries within the other country. The broad principle of the Memorandums is that, in considering their defense requirements, NATO allies will look to qualified defense items developed and produced by each other and will waive, in part, buy-national laws and regulations and import duties in evaluating offers among each other. They are to review and, when necessary, revise defense policies, procedures, and regulations in order to lead to greater defense procurement competitiveness and to the four goals cited above.

The terms of the general Memorandums provide for an annual meeting between the signatories to discuss the current balance of defense trade. Data is available on foreign government purchases of major systems and equipment from the United States since these purchases are recorded as foreign military sales. Department of Defense officials recognize that a meaningful total dollar expenditure comparison cannot be made, since direct purchases by the Department are the only items on which records are kept. Much of the Department's dollar expenditures in foreign countries are made at the subcontract level, and data as to these purchases is not available.

If Department of Defense contractor procurements in countries with Memorandums of Understanding are increasing and are substantial, it is important for the Department to be aware of the dollar value of these expenditures. Such expenditures should be considered by foreign governments and by the U.S. Congress in any assessment or comparison of defense purchases between the United States and other countries.

The Department of Defense has recognized this need and is seeking approval from the Office of Management and Budget to establish a data collection system. The cost to the Federal Government of collecting the data is estimated at \$30,000. Data submissions would be made by the approximately 500 firms

obtaining Department of Defense prime contracts of \$500,000 or more or subcontracts in excess of \$100,000 for other than standard commercial items. The contractor would report all subcontracts or purchase orders awarded for systems, subsystems, components, direct materials or services in excess of \$10,000. The reports would be filed as the subcontract is awarded or no later than on a quarterly basis. The Department of Defense will require a clause in all of its prime contracts for submission of the report. A Department assessment shows that the reporting burden on U.S. firms will be negligible.

For reasons described above, we concur with the Department's assessment as to the need for such data. The collection of this data involves only small incremental costs to the Government and a minor work burden being placed on defense contractors.

This review was made primarily in Washington, D.C. We met with officials from the Departments of Defense, State, Commerce, and Treasury and the Office of the U.S. Trade Representative as well as with representatives of U.S. defense industries. We also performed some work in Europe, such as meeting with U.S. Embassy and defense industry representatives to gain a perspective on our domestic work and to discuss the agreement between the United States and the United Kingdom. We discussed a draft of this letter informally with Department of Defense officials and considered their comments in preparing this letter.

We are sending copies of this letter to the Secretaries of State, Commerce, and the Treasury; to the U.S. Trade Representative; to the Director, Office of Management and Budget; and to cognizant congressional committees.

Sincerely yours,

Frank C. Conahan

Frank C. Conahan
Director

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